

\$500 could give kids a stake in life

David Keim, Knoxville News-Sentinel

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The Roth IRA, which lets Americans watch their investments grow tax-free for retirement, has been an exceedingly popular savings vehicle.

Now U.S. Rep. Harold Ford Jr., D-Memphis, wants to help families - particularly middle- and low-income families - use the same principle to build assets for their children.

And he wants to prime the pump with a \$500 contribution at birth.

Not from his own wallet, of course.

He wants the federal government to give every American newborn a funded savings account, plus - for the lowest-income families - another \$500 at birth (for a total of \$1,000) and up-to-\$500 matches annually for private contributions.

It's called the America Saving for Personal Investment, Retirement, and Education Act (ASPIRE).

My initial reaction, when Ford came in last week to pitch it, was, "Why should the government pay someone for being born?"

Congress needs to spend less money, not more, and this would cost an estimated \$37.5 billion in its first 10 years.

Then I noticed that Sen. Rick Santorum, R-Pa., is among co-sponsors of the legislation. Santorum is a conservative darling and chairman of the Senate Republican Conference.

And Ford's argument is compelling.

It uses the same economic principles that companies use when they award stock options to employees and that neighborhoods use when they promote resident-owned homes over rental units.

People are more likely to act in the best interests of a company or community - or the country - when they have a stake.

"I believe in an ownership society," Ford said. "I believe the great divide in our society is some people have the ability to build (wealth) and some don't, and we all want to."

For a lower-income family, the accounts could grow to around \$20,000 by the time a child turns 18, assuming annual private contributions of a few hundred dollars, a government match and a 5 percent to 7 percent annual return.

The money could be used for college, to buy a home or for retirement.

"If you work hard and play by the rules, you'll get something," Ford said, and "when you reach 30 years old, you have to pay the principal (\$500) back."

Children get the extra \$500 at birth if their household income is below 50 percent of national median adjusted gross income, or about \$21,150. The supplement is reduced up to the \$42,300 median.

Families and others can contribute up to \$1,000 per year, with a dollar-for-dollar match up to \$500 per year for families earning up to the national median. There's a lower match from 100 percent to 105 percent of AGI.

In other words, the government puts in seed money of \$1,000 at most, then rewards savers with a matching contribution, like a 401(k) plan.

Tax breaks on retirement savings and home mortgage interest have long promoted savings and homeownership for middle- and upper-income taxpayers.

It makes economic sense that the same incentives would work for lower-income families, particularly since the biggest dollars come as a result of a family's own contributions.

The plan would apply to children born starting in 2006, and Ford expects an "all-out effort to attract support" this fall.

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